

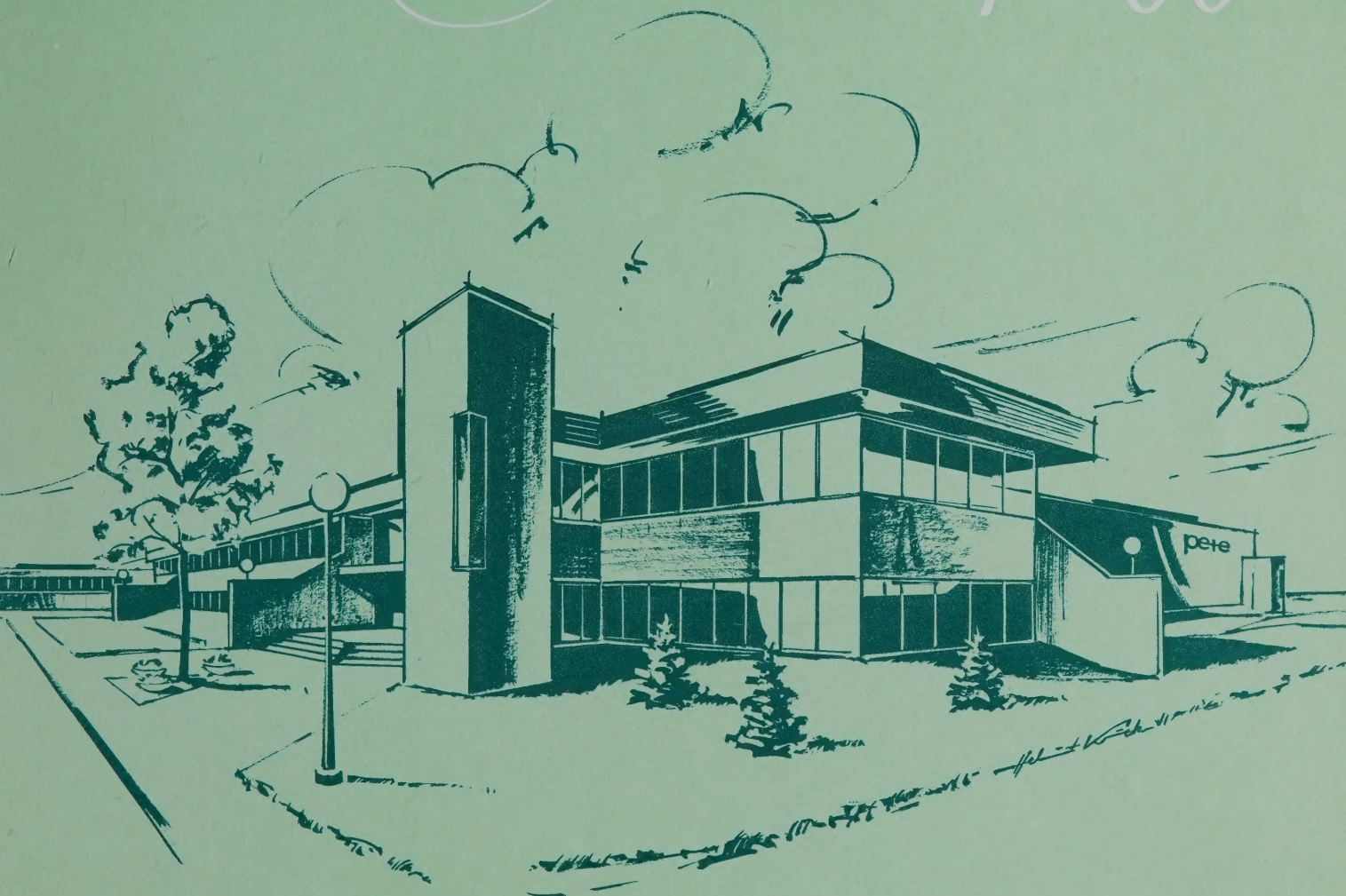
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photo engravers & electrotypers Ltd.

Annual Report 1975



leaders in the graphic arts since 1906

photo engravers & electrotypers Ltd.

Directors and Officers

GORDON R. GILLIES, *President*

J. R. SHAW, *Vice-President*

JOHN S. DINNICK

H. B. KEENLEYSIDE, C.B.E.

DOUGLAS J. PEACHER

JAMES M. TORY, Q.C.

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE and PLANT, 2250 Islington Ave., Rexdale, Ontario, M9W 3W4

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Financial Highlights

EARNINGS	1975	1974
Sales - - - - -	\$14,333,811	\$13,953,318
Depreciation - - - - -	649,901	642,619
Income taxes - - - - -	595,000	583,000
Net earnings - - - - -	840,793	815,973
Net earnings per share - - - - -	4.62	4.49
Dividends paid - - - - -	363,700	290,960
Dividends paid per share - - - - -	2.00	1.60
<hr/>		
BALANCE SHEET		
Additions to fixed assets - - - - -	\$ 865,316	\$ 238,185
Shareholders' equity - - - - -	5,671,786	5,194,693
Shareholders' equity per share - - - - -	31.19	28.57
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photo engravers & electrotypers Ltd.

Directors' Report to the Shareholders

Your directors are pleased to submit the annual report of the Company for 1975, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS In 1975, sales amounted to \$14,333,811 compared with \$13,953,318 in 1974. After meeting all charges, including a provision of \$649,901 for depreciation of plant and equipment, and a provision of \$595,000 for income taxes, there remained earnings of \$840,793 or \$4.62 per share compared with \$815,973 or \$4.49 per share for the previous year.

DIVIDENDS Quarterly dividends of 50 cents per share were paid during 1975, making a total distribution to shareholders of \$2.00 per share or \$363,700 compared with a total distribution of \$1.60 per share or \$290,960 in 1974.

FIXED ASSETS In light of the rising cost of petroleum products, your Board of Directors has approved the installation of a system for recovery of solvent. It is expected that this system will be completed during the first half of 1976 at an estimated cost of approximately \$1,200,000. To December 31, 1975 \$752,500 has been expended on this system. Any funds required for this system which are not available from current operations will be financed from our \$850,000 of unused term bank credit.

WORKING CAPITAL As a result of our recent expansion programmes, current liabilities exceeded current assets by \$332,493 as at December 31, 1975. This working capital deficiency does not affect the Company's operations and is expected to continue during the financing period of our expansion programmes. As a result of fast write-off provisions made available for income tax purposes for expenditures on machinery and equipment, a portion of taxes otherwise payable for the year has been deferred as reflected in the Statement of Earnings and Earnings Employed in the Business.

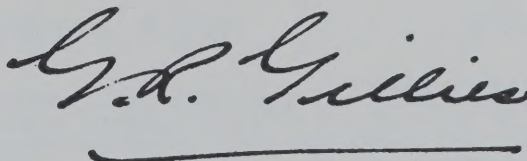
EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1975 earnings employed in the business amounted to \$4,777,257 compared to \$4,300,164 last year.

SHAREHOLDERS' EQUITY Total shareholders' equity amounted to \$5,671,786 equal to \$31.19 per share, compared with \$5,194,693 or \$28.57 per share a year ago.

ANTI-INFLATION ACT Your Company is subject to the Anti-Inflation Act which has effect from October 14, 1975. While the full effect of this legislation is not known at this time, preliminary estimates indicate that the Company is in compliance with the requirements of the Act. Under this Act your Company is restricted in 1976 to the same dividend rate as was paid during 1975.

We extend sincere appreciation to our employees who contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "G.D. Gillies". The signature is fluid and cursive, with a horizontal line drawn underneath it.

President.

Toronto, Canada,
January 27, 1976.

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ASSETS

	1975	1974
CURRENT:		
Cash - - - - -	\$ 31,334	\$ 104,375
Accounts receivable - - - - -	404,835	396,409
Portion of notes due within one year under Employees' Stock Purchase Plans (note 4) - - - - -	23,036	23,399
Inventories (note 2) - - - - -	1,441,105	1,447,172
TOTAL CURRENT ASSETS - - - - -	1,900,310	1,971,355
FIXED, AT COST:		
Land and roadways - - - - -	171,963	171,963
Buildings - - - - -	4,614,327	4,614,327
Machinery and equipment (note 6) - - - - -	10,968,274	10,124,807
	15,754,564	14,911,097
Less accumulated depreciation - - - - -	6,916,982	6,279,375
	8,837,582	8,631,722
OTHER:		
Notes due under Employees' Stock Purchase Plans (note 4) - - - - -	54,697	79,911
	<u>\$10,792,589</u>	<u>\$10,682,988</u>

(See accompanying r

On behalf of the Board:

G. R. GILLIES, *Director*

J. R. SHAW, *Director*

electrotypers Ltd.

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at December 31, 1974)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
CURRENT:		
Operating bank loan - - - - -	\$ 120,000	\$ 200,000
Accounts payable and accrued charges - - - - -	1,008,749	877,496
Income and other taxes payable - - - - -	604,054	606,799
Portion of term bank loan due within one year - - - - -	500,000	500,000
TOTAL CURRENT LIABILITIES - - - - -	2,232,803	2,184,295
TERM BANK LOAN (note 3) - - - - -	650,000	1,150,000
DEFERRED INCOME TAXES - - - - -	2,238,000	2,154,000
	5,120,803	5,488,295
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized:		
250,000 shares, no par value		
Issued:		
181,850 shares - - - - -	894,529	894,529
Earnings employed in the business - - - - -	4,777,257	4,300,164
	5,671,786	5,194,693
	<u>\$10,792,589</u>	<u>\$10,682,988</u>

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Auditors' Report

To the Shareholders of
PHOTO ENGRAVERS & ELECTROTYPERS LIMITED:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1975 and the statements of earnings and earnings employed in the business and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 15, 1976.

Clarkson, Gordon & Co.
Chartered Accountants

photo engravers & electrotypers Ltd.

Statement of Earnings and Earnings Employed in the Business

Year ended December 31, 1975

(with comparative figures for the year 1974)

	<u>1975</u>	<u>1974</u>
SALES (note 7) - - - - -	\$14,333,811	\$13,953,318
COST OF SALES and all expenses, except the items noted below - - -	11,457,358	11,040,830
Administrative and general - - - - -	555,462	524,634
Provision for depreciation - - - - -	649,901	642,619
Interest expense on term bank loan - - - - -	154,843	230,340
Interest expense on current bank loan - - - - -	80,454	115,922
	<u>12,898,018</u>	<u>12,554,345</u>
EARNINGS BEFORE PROVISION FOR INCOME TAXES - - -	1,435,793	1,398,973
Provision for income taxes (includes deferred income taxes 1975—\$84,000; 1974—\$282,000) - - - - -	595,000	583,000
EARNINGS FOR THE YEAR* - - - - -	840,793	815,973
EARNINGS EMPLOYED IN BUSINESS, BEGINNING OF YEAR -	4,300,164	3,775,151
	<u>5,140,957</u>	<u>4,591,124</u>
Less dividends paid - - - - -	363,700	290,960
EARNINGS EMPLOYED IN BUSINESS, END OF YEAR - - - -	<u>\$ 4,777,257</u>	<u>\$ 4,300,164</u>
*EARNINGS PER SHARE - - - - -	<u>\$4.62</u>	<u>\$4.49</u>

(See accompanying notes to financial statements)

photo engravers & electrotypers ltd.

Statement of Changes in Financial Position

Year ended December 31, 1975

(with comparative figures for the year 1974)

	1975	1974
WORKING CAPITAL WAS PROVIDED BY:		
Operations* - - - - -	\$1,574,694	\$1,740,592
Proceeds from sale of fixed assets - - - - -	9,555	6,803
Repayment of notes due under Employees' Stock Purchase Plans - -	25,214	23,399
	<u>1,609,463</u>	<u>1,770,794</u>
WORKING CAPITAL WAS USED FOR:		
Additions to fixed assets (net of investment tax credit of \$31,127 in 1975) - - - - -	865,316	238,185
Reduction in term bank loan - - - - -	500,000	500,000
Dividends - - - - -	363,700	290,960
	<u>1,729,016</u>	<u>1,029,145</u>
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	(119,553)	741,649
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR -	<u>(212,940)</u>	<u>(954,589)</u>
WORKING CAPITAL (DEFICIENCY), END OF YEAR - - - -	<u>\$ (332,493)</u>	<u>\$ (212,940)</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets—		
Cash - - - - -	\$ (73,041)	\$ (34,038)
Accounts receivable - - - - -	8,426	160,044
Portion of notes due within one year under Employees' Stock Purchase Plans - - - - -	(363)	
Inventories - - - - -	<u>(6,067)</u>	<u>816,774</u>
	<u>(71,045)</u>	<u>942,780</u>
Increase (decrease) in current liabilities—		
Operating bank loan - - - - -	(80,000)	(130,000)
Accounts payable and accrued charges - - - - -	131,253	86,479
Income and other taxes payable - - - - -	<u>(2,745)</u>	<u>244,652</u>
	<u>48,508</u>	<u>201,131</u>
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	<u>\$ (119,553)</u>	<u>\$ 741,649</u>

*Net earnings adjusted for charges for depreciation and deferred income taxes which do not affect working capital.

(See accompanying notes to financial statements)

photo engravers & electrotypers Ltd.

Notes to Financial Statements

December 31, 1975

1. SIGNIFICANT ACCOUNTING POLICIES

Inventories—

Inventories of materials and work in process are valued substantially at cost which does not exceed market.

Depreciation—

Charges are made against earnings for depreciation of investment in buildings, machinery and equipment based on the estimated remaining useful lives of the assets using the straight-line method. The rates of depreciation are generally 2½% for buildings and roadways and 6½% for machinery and equipment.

Income taxes—

The Company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of the depreciation and other charges reflected in the statement of earnings rather than the related amounts claimed as deductions in the Company's tax return.

2. INVENTORIES

Inventories consist of the following:

	1975	1974
Work in process, at cost less progress payments received - - - - -	\$ 932,227	\$ 864,317
Paper stock - - - - -	316,065	402,788
Other materials and supplies - - - - -	192,813	180,067
	<u>\$1,441,105</u>	<u>\$1,447,172</u>

3. TERM BANK LOAN

Funds not available from operations in recent years to meet major capital expenditures have been provided by means of a term bank loan bearing an annual rate of interest of 1% over the commercial bank prime rate of interest. This loan is repayable in equal quarterly instalments over six years which commenced in 1974. There is a maximum amount of \$3,000,000 available under the bank line of credit of which \$2,150,000 has been taken up by the Company to December 31, 1975. This loan is evidenced by demand notes, and the Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of the loan is outstanding.

4. EMPLOYEES' STOCK PURCHASE PLANS

In prior years, officers and senior management of the Company, two of whom are full-time salaried directors, subscribed for and purchased shares of the Company under Employees' Stock Purchase Plans. The shares were issued at the current market price on the day prior to the subscription date, for consideration in the form of non-interest bearing promissory notes. These notes are secured by a pledge of shares of the Company and are due in equal annual instalments over ten years.

5. PENSION PLANS

The majority of the Company's employees are covered by retirement plans. The amount charged to income in 1975 (including amounts paid to the government pension plan) was \$196,600 (\$172,000 in 1974), which amounts included amortization of prior service costs. The unfunded prior service pension costs at December 31, 1975 were estimated to total \$257,100 (\$208,100 in 1974) (approximately equal to the value of the vested benefits at that date) and these will be charged to operations on a straight-line basis over the next fourteen years.

6. SOLVENT RECOVERY SYSTEM

In October, 1974, the directors authorized the purchase and installation of a system for recovery of solvent. This system is estimated to cost approximately \$1,200,000 and is expected to be completed during the first half of 1976. At December 31, 1975, commitments under this programme amounted to \$1,103,100 of which \$752,500 has been expended to that date.

7. SALES TO MAJOR CUSTOMER

Significantly more than one-half of the Company's sales are made to Simpsons-Sears Limited pursuant to a long-term contract extending to 1978.

8. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration in 1975 of the Company's six directors, as directors, was \$5,100 (\$5,100 in 1974). The aggregate remuneration in 1975 of the Company's three officers, as officers, was \$177,900 (\$160,700 in 1974). Two directors were also officers of the Company during 1975.

9. ANTI-INFLATION PROGRAM

Under the Anti-Inflation Act, effective October 14, 1975, the Company is subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. The full effects on the Company with respect to prices, profit margins and employee compensation are not yet clear owing to uncertainties in the interpretation of the regulations and the need to develop appropriate data from the Company's records. Dividends to the Company's shareholders in 1976 may not exceed \$2.00 per share.

photo engravers & electrotypers ltd.

Ten Years' Review

Earnings

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1966	\$5,323,927	\$305,789	\$ 501,770	\$254,270	\$1.55	\$.80
1967	5,960,022	327,032	564,640	282,140	1.61	.80
1968	6,495,118	360,111	608,186	293,486	1.68	.80
1969	7,347,776	501,444	691,336	323,736	1.85	.86
1970	8,228,668	486,597	690,195	327,195	1.87	.92
1971	8,461,994	504,362	834,293	422,793	2.35	.97
1972	8,748,533	507,528	849,639	443,639	2.44	1.12
1973	10,335,867	533,012	1,026,926	587,926	3.23	1.20
1974	13,953,318	642,619	1,398,973	815,973	4.49	1.60
1975	14,333,811	649,901	1,435,793	840,793	4.62	2.00

Balance Sheet

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Long Term Debt		Shareholders' Equity	Shareholders' Equity Per Share
				Funded Debt	Term Bank Loan		
1966	\$764,131	\$ 6,535,191	\$3,403,065	\$500,000		\$2,920,041	\$17.77
1967	244,788	7,641,891	4,255,915	250,000	\$ 255,000	3,206,091	18.32
1968	(611,244)	9,477,706	5,738,084		712,000	3,359,577	19.20
1969	(539,181)	10,633,676	6,399,648		1,144,000	3,532,813	20.19
1970	(991,492)	12,068,972	7,435,020		1,410,000	3,699,008	21.14
1971	(859,653)	12,261,782	7,131,953		920,000	4,060,007	22.33
1972	(479,522)	12,800,280	7,172,788		1,000,000	4,299,974	23.65
1973	(954,589)	14,710,330	9,042,960		1,650,000	4,669,680	25.68
1974	(212,940)	14,911,097	8,631,722		1,150,000	5,194,693	28.57
1975	(332,493)	15,754,564	8,837,582		650,000	5,671,786	31.19



Artists

Photographers

Rotogravure Engravers

Rotogravure Printers

Bookbinders